CANADA

Prices and incomes commission

Commission des prix et des revenus

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FOOD PROCESSING INDUSTRY

Prices and Incomes Commission

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FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

(a) Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.

(b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

FOOD PROCESSING INDUSTRY

Background

During the first quarter of 1970 four of the major food processors in Canada introduced price increases ranging between three per cent and 11 per cent, the average being approximately six per cent, on a wide range of their products. These price increases are budgeted to increase revenues of the companies by $5,853,000 which will partially offset expected cost increases of $7,371,000, resulting in the companies absorbing costs of $1,518,000. The nature of the cost increases and their amounts are discussed in detail later in the report.

Increases came to the attention of the Commission through its retail surveillance unit and by notification from certain of the companies. A detailed review was then undertaken. The objective of the review was to identify the factors which caused the price increases and to determine whether the increases were within the price guidelines agreed to at the National Conference on Price Stability.

The companies reviewed were: Catelli Habitant Lteé, Montreal; Campbell Soup Co. Ltd., Toronto; H. J. Heinz Co. of Canada Ltd., Toronto; Libby McNeill & Libby of Canada Ltd., Chatham, Ont.

These firms process raw produce such as tomatoes, peas, corn, apples, meats and flour into a wide range of table foods including soups, canned vegetables, pasta products, sauces, frozen dinners and baby foods. The wholesale value of the products of these companies exceeded $200,000,000 during 1969. Products are sold to consumers through retail grocery stores and wholesale food merchants.

For all companies except Catelli, financial results for fiscal years which began during the first six months of 1969 and ended in 1970 were used as base periods. Budgeted results for current fiscal years were measured against the base periods. In the case of Catelli, because the financial results of the company for 1969/70 were not consistent with their historical pattern, the fiscal year 1968/69 was considered to be a suitable base.

Detailed budgets and historical financial information were received from each of the companies and analysed by the Commission. Co-operation from the companies was good.

Factors Causing Price Increases

The main elements of cost of the companies reviewed and their approximate percentage of the sales dollar are as follows:

SALES DOLLAR	100%
RAW PRODUCE AND INGREDIENTS, (Tomatoes, beans, flour, edible oils and spices)	35%
PACKAGING (Tin cans, glass containers, paper boxes and cellophane)	25%
SALARIES, WAGES AND RELATED BENEFITS	15%
ADVERTISING AND MARKETING	8%
OUTWARD FREIGHT	6%
OVERHEAD, INCOME TAXES AND PROFIT	11%
	100%

Costs in all areas are expected to rise above 1969/70 levels with significant increases expected in the following areas:

Element of Cost	Per-Cent Increases Forecast	Increase as a Per Cent of Total Cost Increases
Raw produce and ingredients	6-16% on a limited number of items	17%
Packaging	5% across the board	28%
Salaries, wages and related benefits	8-16% across the board	35%
Outward freight	5% across the board	4%
Overhead and miscellaneous	varying percentages	16%
		100%

These increases do not reflect increases in product volume but the percentage increase in the number of dollars required to purchase the same volume of goods and services as were purchased in the base year.

The table shows that the major contributing factors to increased food costs are high costs of packaging and increased salaries, wages and related benefits. It was pointed out in earlier reports prepared by the Commission on tin plate, metal containers and glass containers that price increases in these products would be passed along to consumers in the form of higher prices for basic foods. In the case of glass containers the Commission requested a partial rollback of price increases

to a point where the producer was clearly absorbing part of his cost increase.

All of the companies reviewed have experienced significant wage and salary increases in the last two to three years. For example, a recent settlement between members of the Canadian Food and Allied Workers and H. J. Heinz Co. of Canada Ltd. resulted in increases of more than 12 per cent in the first year of the 27-month contract and a further 12 per cent in the second period of 15 months. Thus the total wage increase over the 27-month period amounts to more than 25 per cent.

A substantial part of these higher costs are now being passed on to consumers in the form of higher prices.

CONCLUSION

The effect of these increases, which are offset only to the extent of 79 per cent by revenue increases, is anticipated to reduce net profit as a percentage of net sales to 3.0 per cent for the fiscal years ending in

1971, compared with 4.1 per cent earned in the base years. Each of the companies reviewed is budgeting for a reduction of net profit as a percentage of net sales from the base year to the forecast year, and will absorb cost increases in excess of anticipated revenue. As a result, each company has met the criteria and no further action is recommended.